

AURELIA MUNICIPAL ELECTRIC UTILITY
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
DECEMBER 31, 2005

NEWS RELEASE

For Release

The audit report of Aurelia Municipal Electric Utility for the year ended December 31, 2005 has been released. The report was issued by Hunzelman, Putzier & Co., C.P.A.s and filed with David A. Vaudt, Auditor of State.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

AURELIA MUNICIPAL ELECTRIC UTILITY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

DECEMBER 31, 2005

AURELIA MUNICIPAL ELECTRIC UTILITY

AURELIA, IOWA

CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4
Financial Statements	<u>Exhibit</u>
Statements of Net Assets	A 5
Statements of Revenue, Expenses, and Changes in Net Assets	B 6
Statements of Cash Flows	C 7
Notes to Financial Statements	8-12

SUPPLEMENTARY INFORMATION

Schedule 1 - Schedule of Municipal Electric Plant	14
Comments on Statement of Net Assets	15-17
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	18-19
Schedule of Findings	20-22

AURELIA MUNICIPAL ELECTRIC UTILITY

AURELIA, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Redig	Trustee	January, 2007
Mark Arnold	Trustee	January, 2009
Gordon Grohe	Trustee	January, 2009
Jeff Bowen	Trustee	January, 2011
Marvin Krause	Trustee	January, 2011

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

1100 WEST MILWAUKEE
STORM LAKE, IOWA 50588
712-732-3653
FAX 712-732-3662
info@hpcocpa.com

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Aurelia Municipal Electric Utility
Aurelia, Iowa

We have audited the accompanying financial statements of Aurelia Municipal Electric Utility, a component unit of City of Aurelia, as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aurelia Municipal Electric Utility as of December 31, 2005 and 2004, and the changes in its financial position and the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Utility has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated January 25, 2006 on our consideration of Aurelia Municipal Electric Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Hunzelman, Putzier & Co.

January 25, 2006

AURELIA MUNICIPAL ELECTRIC UTILITY
STATEMENTS OF NET ASSETS
DECEMBER 31, 2005 AND 2004

Exhibit A

<u>ASSETS</u>		<u>2005</u>	<u>2004</u>
<u>UTILITY PLANT</u>			
Electric plant in service		\$1,756,373	\$1,741,801
Less accumulated depreciation and amortization		<u>1,016,846</u>	<u>986,420</u>
Net utility plant		<u>739,527</u>	<u>755,381</u>
<u>OTHER ASSETS</u>			
Membership		100	100
Deferred patronage refund receivable		<u>157,300</u>	<u>142,659</u>
		<u>157,400</u>	<u>142,759</u>
<u>CURRENT ASSETS</u>			
Cash and cash equivalents		50,618	100,459
Temporary cash investments - at cost which approximates market value		625,000	625,000
Inventory		22,515	12,750
Accounts receivable		80,059	35,574
Accrued interest receivable		3,729	1,983
Prepaid insurance		<u>3,430</u>	<u>3,550</u>
		<u>785,351</u>	<u>779,316</u>
		<u>\$1,682,278</u>	<u>\$1,677,456</u>
<u>LIABILITIES AND NET ASSETS</u>			
<u>NET ASSETS</u>			
Invested in capital assets		\$ 739,527	\$ 755,381
Undesignated		<u>882,297</u>	<u>868,485</u>
		<u>1,621,824</u>	<u>1,623,866</u>
<u>CURRENT AND ACCRUED LIABILITIES</u>			
Accounts payable		29,251	24,138
Consumers deposits		2,675	2,675
Other current and accrued liabilities		<u>28,528</u>	<u>26,777</u>
		<u>60,454</u>	<u>53,590</u>
		<u>\$1,682,278</u>	<u>\$1,677,456</u>

The accompanying notes are an integral part of this statement.

AURELIA MUNICIPAL ELECTRIC UTILITY
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2005 AND 2004

Exhibit B

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
<u>OPERATING REVENUE</u>			
Residential energy sales	\$ 284,299	\$ 281,745	\$ 2,554
Commercial energy sales	50,057	48,198	1,859
Other energy sales	164,525	163,853	672
Deferred patronage allocations	20,830	39,846	(19,016)
Other operating revenue	<u>3,222</u>	<u>3,029</u>	<u>193</u>
Total operating revenue	<u>522,933</u>	<u>536,671</u>	<u>(13,738)</u>
<u>OPERATING EXPENSES</u>			
Cost of power	253,977	249,591	4,386
Depreciation and amortization	49,189	62,550	(13,361)
Distribution expenses - operations and maintenance	30,929	27,047	3,882
Administrative and general expense	167,871	147,030	20,841
Economic development	33,500	-	33,500
Payment to the City in lieu of property taxes	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Total operating expenses	<u>545,466</u>	<u>496,218</u>	<u>49,248</u>
Income from operations	<u>(22,533)</u>	<u>40,453</u>	<u>(62,986)</u>
<u>NONOPERATING REVENUE</u>			
Interest revenue	19,351	8,271	11,080
Gain on sale of assets	<u>1,140</u>	<u>-</u>	<u>1,140</u>
Total nonoperating revenue	<u>20,491</u>	<u>8,271</u>	<u>12,220</u>
Change in net assets before unusual item	(2,042)	48,724	(50,766)
<u>UNUSUAL ITEM</u>			
Unbilled revenue	<u>-</u>	<u>(46,667)</u>	<u>46,667</u>
Change in net assets	(2,042)	2,057	<u>\$ (4,099)</u>
Net assets, beginning of year	<u>1,623,866</u>	<u>1,621,809</u>	
Net assets, end of year	<u>\$1,621,824</u>	<u>\$1,623,866</u>	

The accompanying notes are an integral part of this statement.

AURELIA MUNICIPAL ELECTRIC UTILITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

Exhibit C

	<u>2005</u>	<u>2004</u>
<u>DECREASE IN CASH AND CASH EQUIVALENTS:</u>		
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash received from customers	\$ 457,618	\$ 528,932
Cash paid to suppliers	(411,615)	(355,628)
Cash paid to employees	(87,443)	(81,351)
Patronage dividends received	<u>6,189</u>	<u>186,340</u>
Net cash provided by (used in) operating activities	<u>(35,251)</u>	<u>278,293</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Additions to plant	(34,527)	(4,514)
Sale of property and equipment	<u>2,332</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(32,195)</u>	<u>(4,514)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Interest received	17,605	6,690
Investments matured or sold	150,000	100,000
Purchase of investments	<u>(150,000)</u>	<u>(425,000)</u>
Net cash provided by (used in) investing activities	<u>17,605</u>	<u>(318,310)</u>
<u>NET DECREASE IN CASH AND CASH EQUIVALENTS</u>	(49,841)	(44,531)
Cash and cash equivalents at beginning of year	<u>100,459</u>	<u>144,990</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$ 50,618</u>	<u>\$ 100,459</u>
<u>RECONCILIATION OF OPERATING INCOME TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</u>		
Operating income (loss)	\$ (22,533)	\$ 40,453
Adjustments to reconcile operating income to cash provided by operations:		
Depreciation and amortization	49,189	62,550
Unbilled revenue	-	(46,667)
Changes in assets and liabilities:		
Decrease (increase) in deferred patronage refund receivable	(14,641)	146,494
Decrease (increase) in accounts receivable	(44,485)	78,769
Decrease (increase) in prepaid expenses	120	(40)
Increase in inventory	(9,765)	(1,335)
Increase (decrease) in accounts payable and other accrued expenses	<u>6,864</u>	<u>(1,931)</u>
Total adjustments	<u>(12,718)</u>	<u>237,840</u>
Net cash provided by (used in) operating activities	<u>\$ (35,251)</u>	<u>\$ 278,293</u>

The accompanying notes are an integral part of this statement.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Aurelia Municipal Electric Utility is a component unit of City of Aurelia. The Mayor appoints the trustees of the Utility subject to approval by the City Council. The City Council also approves the Utility's operating budget.

Aurelia Municipal Electric Utility distributes electric energy to consumers in Aurelia, Iowa. The Utility purchases all its power requirements from Western Iowa Municipal Electric Cooperative Association under a long-term contract.

The Utility's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Reporting Entity

For financial reporting purposes, Aurelia Municipal Electric Utility has included all funds, organizations, agencies, boards, commissions, and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the Utility. Aurelia Municipal Electric Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of Aurelia Municipal Electric Utility are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Measurement Focus and Basis of Accounting - (Continued)

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Investments, and Cash Equivalents

Investments are carried at cost which approximates market value. For the purpose of reporting cash flows, cash and cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Electric Plant

Electric plant is stated at cost. Cost of labor, materials, supervision, and other costs incurred in making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense.

Memberships and Deferred Patronage Refund Receivable

The membership and deferred patronage allocations are investments for which it is not practicable to estimate a fair value. They are recorded at cost or face values assigned by the issuing entity and are recorded as an asset in the year to which they apply. They are redeemable only at the discretion of the issuing cooperative.

Inventory

Inventories are valued at the lower of average cost or market.

Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2005.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Budget

The Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing in accordance with the Code of Iowa. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The following is a comparison of revenues, expenses, and changes in investment of municipality - actual to budget:

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
Revenues:			
Use of money and property	\$ 19,351	\$ 8,000	\$ 11,351
Charges for services	502,103	525,000	(22,897)
Miscellaneous	21,970	34,250	(12,280)
	543,424	567,250	(23,826)
Expenses	545,466	525,900	(19,566)
Net	(2,042)	41,350	(43,392)
Net assets, beginning of year	1,623,866	1,677,543	(53,677)
Net assets, end of year	<u>\$1,621,824</u>	<u>\$1,718,893</u>	<u>\$ (97,069)</u>

2. PLANT AND DEPRECIATION PROCEDURES

Listed below are the major classes of plant as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Franchises	\$ 1,298	\$ 1,298
Land and land rights	8,967	8,967
Buildings	49,740	49,740
Distribution lines	1,410,557	1,405,820
Substation	132,685	117,581
Other equipment	153,126	158,395
Total electric plant	<u>\$1,756,373</u>	<u>\$1,741,801</u>

Provision for depreciation and amortization has been computed at straight-line rates over the estimated useful lives of the property.

3. DEPOSITS

The Utility's deposits in banks at December 31, 2005 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

3. DEPOSITS - (Continued)

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

The Utility had no investments meeting the disclosure requirements of Government Auditing Standards Board Statement Number 40.

4. TEMPORARY CASH INVESTMENTS

These funds were deposited as follows as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Certificates of deposit	<u>\$625,000</u>	<u>\$625,000</u>

The certificates of deposit at December 31, 2005 bear interest at 4.00% to 4.55% and mature from February, 2006 to June, 2006.

5. CASH AND CASH EQUIVALENTS

These funds were deposited as follows as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Demand deposits	<u>\$50,618</u>	<u>\$100,459</u>

These funds bear interest at .75%.

6. PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ended December 31, 2005, 2004, and 2003 were \$5,050, \$4,337, and \$3,856, respectively, equal to the required contributions for each year.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

7. SIGNIFICANT AREA CONCENTRATION OF CREDIT RISK

The Utility extends credit to its customers on terms no more favorable than standard terms of the industry it serves. A substantial portion of the Utility's customers are located in Aurelia, Iowa. The Utility's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

8. ECONOMIC DEPENDENCY - MAJOR CUSTOMER

Aurelia Municipal Electric Utility sells a substantial portion of its electricity to one customer. During the years ended December 31, 2005 and 2004, sales to First Cooperative Association as a percentage of operating revenue, were 10.70% and 10.67%, respectively.

9. RISK MANAGEMENT

Aurelia Municipal Electric Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. GUARANTY AGREEMENT

The Utility has agreed to act as guarantor of a \$100,000 loan to Aurelia Golf Club, Inc. from Western Iowa Municipal Electric Cooperative Association. The agreement became effective March 19, 2004. The balance due on this loan at December 31, 2005 is \$82,870.

The Utility has also agreed to act as guarantor of a \$100,000 loan to Koster Grain, Inc. from Western Iowa Municipal Electric Cooperative Association. The agreement became effective November 12, 2004. The balance due on this loan at December 31, 2005 is \$91,232.

11. UNUSUAL ITEM

The retirement of patronage dividends from WIMECA in 2004 for the years 1993 through 1999 increased the Utility's cash reserves by approximately \$186,000. It was decided to forgive customer charges for electric usage for the month of December, 2004. The amount that would have been billed to Utility customers is \$46,667 and is shown as an unusual item. This amount is also included in operating revenues.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD B. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

1100 WEST MILWAUKEE
STORM LAKE, IOWA 50588
712-732-3653
FAX 712-732-3662
info@hpcocpa.com

Board of Trustees
Aurelia Municipal Electric Utility
Aurelia, Iowa

The primary purpose of our audit was to formulate an opinion on the financial statements taken as a whole. The additional information presented in the following pages was prepared on the basis of audit procedures applied in our examination of the financial statements. This information, while not necessary for fair presentation of the financial statements, is in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

Hunzelman, Putzier & Co.

January 25, 2006

AURELIA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF MUNICIPAL ELECTRIC PLANT
DECEMBER 31, 2005

Schedule 1

	Utility Plant			Accumulated Depreciation or Amortization					
	Balance January 1, 2005	Additions	Retirements	Balance December 31, 2005	Balance January 1, 2005	Additions	Retirements	Balance December 31, 2005	Rate in Percent
Franchises	\$ 1,298	\$ -	\$ -	\$ 1,298	\$ 1,298	\$ -	\$ -	\$ 1,298	4.00
Land and land rights	8,967	-	-	8,967	-	-	-	-	-
Building	49,740	-	-	49,740	37,979	1,700	-	39,679	5.00
Distribution lines	1,405,820	4,737	-	1,410,557	707,566	37,046	-	744,612	3.33-12.50
Substation	117,581	15,104	-	132,685	117,581	378	-	117,959	3.33
Other equipment	<u>158,395</u>	<u>28,979</u>	<u>34,248</u>	<u>153,126</u>	<u>121,996</u>	<u>10,065</u>	<u>18,763</u>	<u>113,298</u>	5.00-20.00
Utility plant in service	1,741,801	48,820	34,248	1,756,373	986,420	49,189	18,763	1,016,846	
Construction work in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total utility plant	<u>\$1,741,801</u>	<u>\$48,820</u>	<u>\$34,248</u>	<u>\$1,756,373</u>	<u>\$986,420</u>	<u>\$49,189</u>	<u>18,763</u>	<u>\$1,016,846</u>	

AURELIA MUNICIPAL ELECTRIC UTILITY
COMMENTS ON STATEMENT OF NET ASSETS
DECEMBER 31, 2005

<u>UTILITY PLANT</u> - Cost	\$1,756,373	
Accumulated depreciation and amortization	<u>1,016,846</u>	\$ <u>739,527</u>

Details of the Utility plant are shown in the preceding schedule.

<u>MEMBERSHIP</u>	\$ <u>100</u>
-------------------	---------------

This account represents the cost of membership in the Western Iowa Municipal Electric Cooperative Association.

<u>DEFERRED PATRONAGE REFUND RECEIVABLE</u>	\$ <u>157,300</u>
---	-------------------

The following is a summary of the deferred patronage due from WIMECA:

<u>Year</u>	<u>Amount</u>
2000	\$ 12,708
2001	33,581
2002	27,595
2003	23,044
2004	39,542
2005	<u>20,830</u>
	<u>\$157,300</u>

<u>CASH AND CASH EQUIVALENTS</u>	\$ <u>50,618</u>
----------------------------------	------------------

This balance consists of the following:

Now account bearing interest at .75%	<u>\$50,618</u>
---	-----------------

<u>TEMPORARY CASH INVESTMENTS</u>	\$ <u>625,000</u>
-----------------------------------	-------------------

This consists of the following:

	<u>Interest Rate</u>	<u>Date</u>	<u>Due</u>	<u>Cost and Book Value</u>	<u>Maturity Value</u>
First Trust and Savings Bank, Aurelia, Iowa					
Certificate of deposit	4.20%	10-20-05	4-20-06	\$150,000	\$150,000
Certificate of deposit	4.20%	11-15-05	2-13-06	100,000	100,000
Certificate of deposit	4.20%	11-17-05	2-15-06	100,000	100,000
Certificate of deposit	4.30%	11-27-05	2-25-06	100,000	100,000
Certificate of deposit	4.55%	12-16-05	6-16-06	100,000	100,000
Heritage Bank, Aurelia, Iowa					
Certificate of deposit	4.00%	9-17-05	3-18-06	<u>75,000</u>	<u>75,000</u>
				<u>\$625,000</u>	<u>\$625,000</u>

INVENTORY

\$ 22,515

The inventory is based on a physical count taken as of December 31, 2005 and consists of the following:

Wire	\$15,500
Elbows	1,440
Junction boxes	1,575
Innerduct and conduit	<u>4,000</u>

\$22,515ACCOUNTS RECEIVABLE

\$ 80,059

Current accounts receivable	\$78,417
Past due accounts	<u>1,642</u>
Balance, December 31, 2005	<u>\$80,059</u>

ACCRUED INTEREST RECEIVABLE

\$ 3,729

This consists of interest accrued at December 31, 2005 on investments.

PREPAID INSURANCE

\$ 3,430

This consists of the unexpired portion of insurance premiums paid. Following is a summary of the coverage.

<u>Policy Type</u>	<u>Coverage</u>	<u>Amount</u>
Blanket Buildings and Personal Property	Fire and extended coverage 90% coinsurance	\$2,565,043* less \$1,000 deductible
Comprehensive general liability	Aggregate Fire damage Medical expense	\$2,000,000 \$100,000 \$5,000
Inland marine	Miscellaneous equipment	\$127,894 less \$1,000 deductible
Auto coverage	Bodily injury and property damage Collision	\$1,000,000 Actual value less \$500 deductible
	Comprehensive Uninsured motorists Underinsured motorists	Actual value \$50,000 \$50,000
Umbrella liability		\$2,000,000/\$2,000,000 less \$10,000 retained
Worker's compensation		\$500,000
Linebacker		\$1,000,000/\$1,000,000 less \$1,500 deductible

* Includes coverage of other property owned by City of Aurelia not connected with the Municipal Electric Utility.

This schedule is presented for information purposes only and no opinion is expressed as to the adequacy of coverage.

NET ASSETS\$1,621,824

Following is a summary of the changes in this account during 2005:

Balance, January 1, 2005	\$1,623,866
Change in net assets	<u>(2,042)</u>
Balance, December 31, 2005	<u>\$1,621,824</u>

ACCOUNTS PAYABLE\$ 29,251

This balance consists of the following:

WIMECA - December 2005 purchased power	\$23,763
Utility customers - Electric heat rebates	4,200
Various, each less than \$1,000	<u>1,288</u>
	<u>\$29,251</u>

CONSUMERS' DEPOSITS\$ 2,675

The subsidiary records were reconciled with the control amount at December 31, 2005. The amount of the deposit varies and is based on one month's estimated usage.

OTHER CURRENT AND ACCRUED LIABILITIES\$ 28,528

This balance consists of the following:

Accrued payroll and vacations	\$ 3,678
Water charges due city	9,748
Sanitary landfill fees due city	4,154
Sewer rental fees due city	8,460
Storm water fees due City	460
State sales tax	<u>2,028</u>
	<u>\$28,528</u>

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

1100 WEST MILWAUKEE
STORM LAKE, IOWA 50588
712-732-3653
FAX 712-732-3662
info@hpcocpa.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Aurelia Municipal Electric Utility
Aurelia, Iowa

We have audited the accompanying financial statements of Aurelia Municipal Electric Utility, as of and for the year ended December 31, 2005, and have issued our report thereon dated January 25, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Aurelia Municipal Electric Utility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Aurelia Municipal Electric Utility's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item I-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Aurelia Municipal Electric Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted a certain immaterial instance of non-compliance that is described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Aurelia and other parties to whom Aurelia Municipal Electric Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Aurelia Municipal Electric Utility during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Hungelman, Putzier + Co.

January 25, 2006

AURELIA MUNICIPAL ELECTRIC UTILITY

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- I-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Office staff will continually cross-train and review procedures. The Electric Board closely monitors operating procedures to obtain the maximum internal control possible.

Conclusion - Response accepted.

- I-B-05 Electronic Data Processing Systems - During our review of internal control, the existing control activities in the Utility's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the Utility's computer based systems were noted:

The Utility does not have written policies for:

- password privacy and confidentiality,
- requiring password changes because software does not require the user to change logins/passwords periodically,
- requiring that users log off the system if not being used for extended periods of time,
- personal use of computer equipment and software.

Also, the Utility does not have a written disaster recovery plan and does not require back-up tapes to be stored off site in a fire proof vault or safe.

Recommendation - The Utility should develop written policies addressing the above items in order to improve the Utility's control over computer based systems. A written disaster recovery plan should be developed and back-up tapes should be stored off site in a fire proof vault or safe.

AURELIA MUNICIPAL ELECTRIC UTILITY

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2005

Part I: Findings Related to the Financial Statements: (Continued)

REPORTABLE CONDITIONS: (Continued)

I-B-05 Electronic Data Processing Systems - (Continued)

Response - The City Clerk has implemented policies to ensure software installed is monitored and licensed to the City, to have each user have a password and change these passwords periodically, prohibit personal use of computer equipment, and develop a disaster recovery plan. In addition, back-up tapes will be stored off site at the Library.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-05 Official Depositories - A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2005.

II-B-05 Budget - Utility expenditures during the year ended December 31, 2005 exceeded the amounts budgeted. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing budget.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - When it is known that the utility will be exceeding the expenditures budgeted for the year, the budget will be amended to reflect the additional expenditures.

Conclusion - Response accepted.

II-C-05 Questionable Expenditures - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.

II-E-05 Business Transactions - No business transactions between the Utility and Utility officials or employees were noted.

II-F-05 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of all bonds should be periodically reviewed to insure that the coverage is adequate for current operations.

AURELIA MUNICIPAL ELECTRIC UTILITY

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2005

Part II: Other Findings Related to Statutory Reporting: (Continued)

- II-G-05 Trustee Minutes - The minutes record was examined and appeared to give a condensed accurate account of business transacted by the Board of Trustees. No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- II-H-05 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.